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SECURITY INFORMATION

(CR: 632)

14 December 1951

OGC Has Reviewed

MEMORANDUM FOR: Deputy Director (Administration)

SUBJECT: Problems and Relations with the Bureau of Internal Revenue

1. The history of the participation by Internal Revenue in clandestine problems is outlined below:

    a. As far back as 1943 discussions were held with the Commissioner of Internal Revenue and the Director of OSS. Assurances of cooperation and assistance were made and culminated in a working relationship between the General Counsel's office, OSS, and Mr. Percy Sherwood, who was Chief of one of the Audit Review Divisions. Those arrangements were evidenced by letters dated 29 January 1944 and 6 February 1945.

    b. By letter dated 26 December 1946, the Director, SSU, confirmed existing arrangements with Mr. J. W. Warner, who succeeded Mr. Percy Sherwood. That letter dealt with the procedures whereby income tax returns and withholding taxes would be filed. The previous arrangements had included this subject, together with assurances as to other types of problems which might have arisen.

    c. In the early part of 1948 procedures relating to the filing of withholding taxes were discussed with Mr. Robert C. Loker, Chief of the Wage and Excise Tax Division in Baltimore. By letter dated 30 January 1948 a permanent arrangement was established whereby CIA would file withholding tax and forms with the Bureau. The procedure was designed to reduce the security hazard of the withholding returns to a minimum. That arrangement is still in effect and is working well.

    d. In the fall of 1949 it was deemed necessary to review the methods and procedures whereby tax problems were handled by CIA. The matter was discussed on a preliminary basis with Mr. Joseph A. Maloney, then Chief Coordinator, Treasury Enforcement Agencies. Subsequently, a meeting was arranged with Dr. Thomas C. Atkeson, Assistant to the Commissioner of the Bureau of Internal Revenue. Also present was Mr. Kennedy C. Watkins of the Office of the Assistant Secretary of the Treasury. At that time the various types of problems which confronted CIA were discussed and proposals were advanced for solving those problems. It was agreed finally that the

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under existing law. As a result of that meeting, a new liaison was established with Dr. Atkeson, Special Assistant to the Commissioner, and the Audit Divisions no longer were used as a channel. This arrangement did not disturb the procedures established with Mr. Loker

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5. In addition to the various procedures which have been evolved, some type of legislative relief has been considered, both in CIA and by the Bureau. To date no workable and secure approach to legislation in this field has been found. However, the problems occurring in this field generally are of the type requiring appropriate solutions adapted to the particular situation or circumstances, and no single solution or action will automatically solve all problems. Essentially it is a matter of protecting security consistent with the entire framework of the Internal Revenue Act.

6. Upon reviewing the above, it can be seen that the Bureau places a great deal of reliance upon the Agency's statements as to facts, including specific amounts paid. Also, the Bureau places a similar reliance upon the security justifications advanced by CIA wherein the Bureau is requested to accord our problems special handling. That reliance by the Bureau places upon CIA a heavy responsibility to state accurately all facts and not request unjustified special handling.

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Assistant General Counsel

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